

United States Defense Expenditures Abroad

U.S. defense expenditures for goods and services were at a record \$4.8 billion annual rate in the first half of 1969. The increase in these expenditures since 1965 has been mostly associated with the Vietnam conflict. Higher overseas spending by personnel and their dependents, expenditures for vast construction projects, and increased costs of services accounted for a major part of the rise.

U.S. Government defense expenditures abroad for goods and services reached an annual rate of over \$4.8 billion in the first half of 1969, the largest amount ever recorded for these transactions in our international balance of payments. For the past several years they have comprised a tenth of all U.S. purchases of goods and services from foreign countries, and have been exceeded only by private merchandise imports as a source of foreign dollar earnings. In recent years the large increases in defense expenditures abroad have been associated with the conflict in Southeast Asia.

Defense expenditures abroad averaged about \$8 billion a year from 1960 through 1965, but increased sharply following the involvement in combat in Vietnam. Tables 1 and 2 show that outlays in 1966 were \$800 million higher than in the prior years, and in 1967 rose by another \$600 million to \$4.4 billion. In 1968 expenditures rose by only \$150 million to \$4.5 billion. Expenditures in each of the first three quarters of 1969 have amounted to about \$1.2 billion and are now expected to total between \$4.8 billion and \$4.9

billion for the whole year. The flattening out in the recent past is primarily due to completion of certain major construction projects in Southeast Asia.

In 1961 the U.S. Government undertook to increase Government and commercial sales of military equipment to friendly nations economically able to bear a larger portion of the defense effort. The objectives of this program include increasing the strength of our allies, standardizing military equipment, and establishing cooperative logistics arrangements. These sales also help to offset the adverse effect on the balance of payments resulting from U.S. military deployment abroad. Since 1961 U.S. Government cash receipts associated with military sales contracts, and commercial sales of military equipment taking place under government to government agreements, have averaged well over \$1.2 billion annually. As can be seen in table 3, the total for the four-year period 1965-1968 was \$5.4 billion when barter sales of agricultural products arranged to reduce military net foreign exchange costs are included.

Balance of payments impact

Defense expenditures abroad represent only the foreign costs of U.S. defense programs. Total Department of Defense outlays are, of course, very much larger. For instance, outlays for Vietnam in fiscal year 1969 are estimated at about \$28.8 billion, of which about \$27.0 billion was spent in the United States. Many of the items used abroad by the military were produced domestically and thus were not balance of payments entries. The remainder

of the \$28.8 billion, about \$1.8 billion or 6 percent of the total, was spent in various countries for foreign goods and services for the war effort, and represents the direct Department of Defense balance of payments cost of the hostilities in Vietnam.

Defense expenditures in the United States have adverse indirect effects on the balance of payments, which are not included in the figures mentioned in this article. The indirect effects arise from increased requirements for imported materials used in the domestic production of military equipment. They also arise from the combination of an increase in military and civilian demand on the productive capacity of U.S. industry, which contributes to the increase in domestic costs and prices, and diverts a rising share of the domestic demand to imported goods and services.

On the other hand, both direct and indirect expenditures abroad have contributed to increased dollar earnings by foreign countries and thus have enabled them to step up their purchases of U.S. products either directly or through third countries. Because most of these shipments take place through commercial channels and are not related to Government activities, they are not reflected in the data discussed in this article, and it would be difficult to estimate them. It is not likely, however, that the rise in foreign expenditures in the United States has fully compensated for the increase in U.S. expenditures abroad that resulted from the large expansion of military activities in recent years.

The defense expenditures shown in the tables accompanying this article (equivalent to line 16, table 1, in the quarterly U.S. balance of payments presentations) include outlays for foreign goods and services by the military agencies and similar defense transactions of the Atomic Energy Commission and the Coast Guard which meet the NATO definition of defense expenditures. In addition to the direct expenditures of these agencies for goods and services, the data include the foreign expenditures of U.S. contractors employed to construct and operate U.S. foreign installations and to furnish other services abroad. Also included are the personal expenditures of U.S. military and civilian personnel and their dependents abroad, together with the foreign purchases of the military exchanges and similar agencies which sell to personnel. Other disbursements include expenditures for NATO infrastructure, the offshore procurement of military equipment to be transferred as aid to foreign countries, contributions to international military headquarters expenses, and other outlays for administration of military assistance programs.

Outlays for material, supplies, and equipment for our own use have included uranium, petroleum, and other items imported by the Government into the United States, as well as goods bought abroad and used abroad for the support of our forces. The data shown here do not include foreign products purchased in the United States, or the foreign components of U.S. products purchased here.

Defense expenditures abroad include all purchases of goods and services from foreign governments, foreign contractors, or foreign subsidiaries or branches of U.S. firms unless contractual arrangements stipulate that a certain portion of amounts paid out to the contractors is to be expended for U.S. products and services to be used in fulfilling the contracts. In the latter case, the resulting U.S. exports are netted against military expenditures and excluded from commercial exports in the balance of payments accounts.

Foreign currencies and barter

Expenditures by the defense agencies

do not always provide new dollar earnings to foreign areas since some purchases are paid for in foreign currencies previously acquired by the U.S. Government as repayments on loans and other credits, as counterpart funds received under grant programs, and as proceeds from sales of goods and services. Of course, such use of foreign currencies does not imply equivalent balance of payments savings for the United States. During the years 1965-1968 use of these currencies by the Department of Defense has averaged about \$170 million a year. All expenditures in foreign currencies acquired without concurrent payment abroad in dollars are included as part of the data shown in tables 1 and 2. Acquisitions of these currencies are included as receipts in table 3 when they are proceeds of military sales programs.

During the 1965-1968 period the defense agencies acquired an average of approximately \$175 million a year of foreign goods and services under barter agreements whereby U.S. agricultural products were exchanged for foreign products. The dollar value of such foreign procurement is included as part of the data shown in various categories of expenditures in tables 1 and 2, and the barter sales of agricultural products are included in table 3.

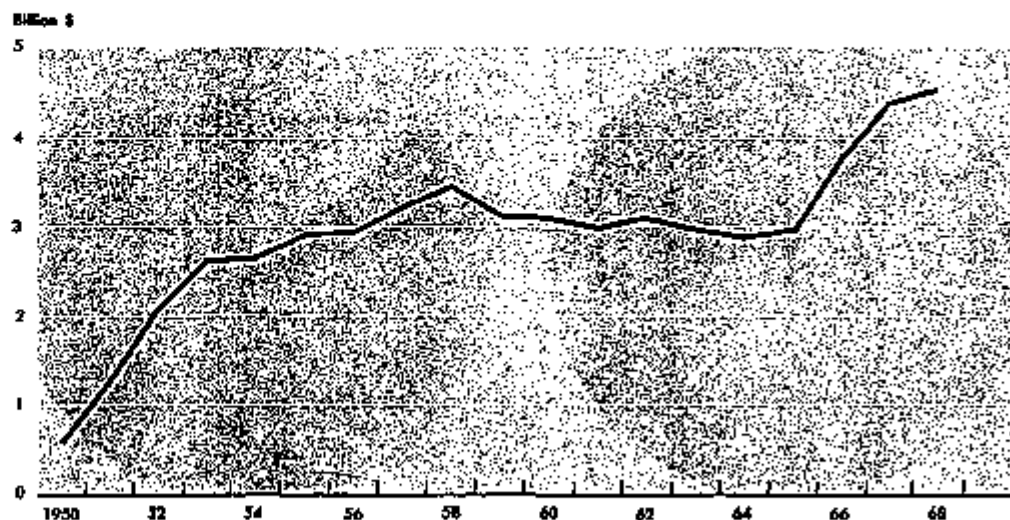
Personnel spending increases

Not surprisingly, higher expenditures abroad by personnel and their dependents account for a significant part of the rise in defense expenditures abroad in recent years. In addition to an overall increase in military strength abroad, recurring pay raises have made many more dollars available for foreign spending. At mid-1969, the U.S. military establishment abroad was comprised of about 1.2 million men stationed abroad or on board ships at sea, and approximately 400 thousand of their dependents were living in foreign countries.

After averaging about \$810 million a year from 1960 through 1963, personnel outlays rose to over \$950 million in 1964 and continued to expand rapidly to reach an annual rate of almost \$1.6 billion in the first half of 1969, nearly twice the rate of the 1960-63 period. About two-fifths of the most recent totals shown for this category were purchases of foreign goods for resale and other expenditures of the military exchanges, officers' clubs, and similar activities operating with nonappropriated funds to serve personnel.

Personnel spending varies from country to country according to the number of troops and dependents stationed in each country and the

Defense Expenditures Abroad for Goods and Services



U.S. Department of Commerce, Office of Business Economics

8-12-71

attractiveness of the merchandise and services offered on the local market. Where combat duty is involved, there are other special factors. Personnel expenditures in Vietnam, for example, dropped off during the Tet Offensive last year because most of the combat troops were moved out of urban areas and early curfews were imposed in urban areas. Per capita outlays there are also lower because personnel are not authorized to bring their dependents into the area.

Where the local market does not adequately meet demand, military men and their families spend mostly in the commissaries, exchanges, and other facilities operating within the military economy. Some of this spending is for goods bought by the military exchanges in other foreign areas and significant earnings are thus recorded for some countries where relatively few U.S. personnel are stationed. Major earnings are also realized by various countries from sales to men visiting on leave or rest and recuperation and from outlays ashore of Navy personnel stationed aboard ship.

Programs to reduce the foreign exchange costs of personnel spending abroad necessarily have been voluntary in nature since some specific curbs on the

per capita expenditures of military men could create a morale problem and could require legislative sanction. The number of military personnel and U.S. civilians in some overseas areas has been reduced, but pay and price increases have offset any significant savings. More U.S. goods have been made available in the military exchanges and certain limitations have been placed on sales of foreign goods.

An attractive savings program, made available to servicemen overseas on September 1, 1966, offers military personnel on active duty a 10 percent interest rate, compounded quarterly. Each man may deposit an amount equal to his entire pay and allowances up to a maximum of \$10,000, subject to withdrawal overseas only in case of an emergency. Gross deposits, excluding interest, from the inception of the program through June 30, 1969, totaled nearly \$620 million. These deposits, however, do not represent equivalent balance of payments gains since they may have replaced other forms of saving or remittances to the United States or may have been facilitated by transfers of money from the United States to personnel stationed overseas.

Treasury savings bond sales through payroll deductions have also helped to

absorb GI funds, and disbursement procedures have been modified to make it easier for servicemen to leave a portion of their pay "on the books." U.S. personnel have also been urged to make greater use of American-controlled recreation facilities overseas. Handsome arrangements have been made for travel on U.S. carriers, and thousands of servicemen in Vietnam have taken advantage of rest and recuperation flights to Hawaii instead of traveling to Hong Kong, Thailand, Japan, or other foreign areas.

Many construction projects complete

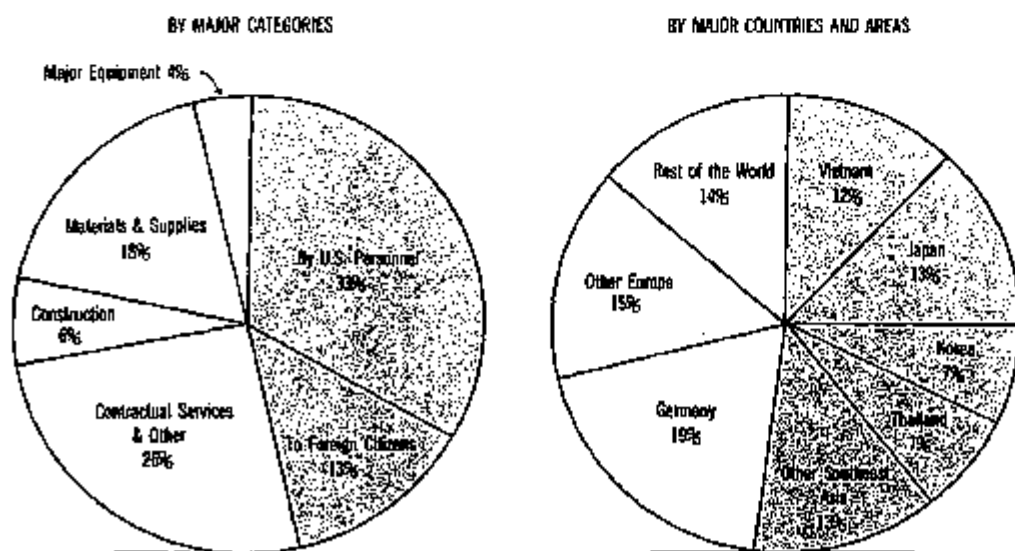
Military expenditures abroad for construction began to decline in 1958 and dropped off gradually to a low of less than \$100 million in 1963. The next 2 years showed small increases followed in 1966 by a substantial increase of about \$200 million, occurring principally in Southeast Asia. Outlays in the following year were more than \$330 million but declined to \$275 million in 1968.

The balance of payments costs of major defense construction projects in Vietnam and Thailand were held down by employing U.S. prime contractors who made their large purchases of heavy equipment and construction material in the United States. Thus only two-fifths of the payments to these contractors represented expenditures for construction materials bought in various foreign countries and for the employment of foreign labor. The major construction programs undertaken in Vietnam and Thailand over the last several years are by and large completed and the major contracts under these programs have been superseded by similar but smaller contracts for operation and maintenance by U.S. contractors.

Defense procurement abroad

As a result of various measures instituted in the early 1960's to minimize defense procurement abroad, expenditures for foreign materials, supplies, and equipment had declined from nearly \$670 million in 1962 to less than \$530 million annually in

Distribution of \$4.5 Billion for Defense Expenditures Abroad for Goods and Services in 1968



1964 and 1965. Thereafter, as a result of activities in Vietnam, these purchases began to increase sharply and by 1968 they passed \$1.0 billion and accounted for over one-fifth of total defense expenditures abroad.

Purchases of petroleum products represented more than half of overseas defense expenditures for merchandise in 1968, amounting to about \$520 million as compared with a yearly average of \$265 million for the 5 years just prior to the expansion of the U.S. involvement in the Vietnam conflict. This sharp increase in the foreign cost of refined petroleum reflected not only the stepped-up requirements for the Seventh Fleet and for aircraft fuel in Southeast Asia, but also price increases resulting from the closing of the Suez Canal in June 1967.

Reported expenditures abroad for subsistence to be supplied to troops or sold in commissaries were less than \$90 million in 1968, including foods acquired under barter programs. Purchases from foreigners for cash have been held to a minimum in the last two years, in part, by employing improved modes of transportation to carry U.S. subsistence items overseas.

Another \$200 million was spent abroad in 1968 for major equipment as compared with \$75 million as recently as 1965. More than 80 percent of these expenditures were in Canada with most of the remainder in Germany and Japan. Expenditures for missiles, electronics, and aircraft engines and spare parts are included in the outlays reported for this category.

Expenditures abroad for the military assistance offshore-procurement programs accounted for only \$16 million of defense expenditures abroad in 1968. This program, once a major factor in our defense spending, was originally established to develop the military productive capacity of our allies by buying military equipment abroad to be transferred as grant aid. After peaking at \$640 million in 1955, such expenditures dropped off sharply through 1958, and since then have declined more gradually.

In 1961 the Department of Defense initiated a program to reduce expenditures abroad for materials and supplies

by placing contracts in the United States when estimated U.S. costs, including transportation and handling, did not exceed the estimated foreign cost by more than 25 percent. This differential was raised to 50 percent in mid-1962 and remains in effect, together with other programs, to minimize the foreign exchange cost of procurement abroad.

Spending for services

Payments to foreigners, contractual services outlays, and other direct expenses for services totaled \$1.6 billion in 1968 and comprised well over a third of defense expenditures abroad. Of this amount, nearly \$900 million was paid out in Southeast Asia and \$600 million was spent in Europe.

Although the employment of foreign citizens in Europe has declined, activities in Southeast Asia and higher wages and bonuses have increased the costs

of employing foreigners in recent years. These expenses, which are incurred principally for the maintenance and operation of bases, amounted to about \$400 million annually in the 6 years prior to 1966, and then increased to an annual rate of over \$630 million in the first half of 1969.

Other expenditures include payments to foreign contractors and the foreign expenditures of U.S. contractors engaged in the day-to-day operation of our bases and providing communication, utilities, real property maintenance, and repair services. Although a reduction in the number and functions of overseas facilities has occurred in certain areas, expenditures have increased considerably, primarily as a result of Southeast Asian activities.

NATO infrastructure payments

The infrastructure program is the major multilaterally-funded program by

Table 1.—Defense Expenditures Abroad for Goods and Services, by Major Category¹

| | (Millions of dollars) | | | | | | | | | |
|--|-----------------------|-------|-------|-------|-------|-------|-------|-------|-------|----------------|
| | 1960 | 1961 | 1962 | 1963 | 1964 | 1965 | 1966 | 1967 | 1968 | Jan.-June 1969 |
| Total ² | 3,497 | 3,923 | 3,185 | 2,961 | 2,880 | 2,952 | 3,764 | 4,378 | 4,830 | 2,412 |
| Department of Defense Expenditures ³ | 2,722 | 2,694 | 2,830 | 2,705 | 2,755 | 2,804 | 3,738 | 4,367 | 4,821 | 2,406 |
| Expenditures by U.S. personnel and by military exchanges, clubs, etc..... | 806 | 772 | 828 | 843 | 954 | 1,050 | 1,256 | 1,301 | 1,503 | 701 |
| U.S. military and civilian personnel and dependents, military exchanges and other nonappropriated fund agencies..... | 419 | 408 | 494 | 472 | 561 | 623 | 738 | 700 | 871 | 463 |
| Construction..... | 160 | 152 | 110 | 82 | 100 | 132 | 353 | 382 | 275 | 140 |
| Equipment..... | 50 | 59 | 79 | 84 | 88 | 75 | 145 | 107 | 100 | 112 |
| Materials and supplies..... | 591 | 579 | 592 | 510 | 427 | 453 | 502 | 721 | 805 | 444 |
| Foreign citizens (direct and contract hire)..... | 363 | 383 | 414 | 420 | 409 | 422 | 482 | 658 | 580 | 317 |
| Other services and unallocated..... | 463 | 460 | 522 | 536 | 570 | 589 | 784 | 969 | 1,032 | 563 |
| NATO infrastructure..... | 117 | 50 | 85 | 50 | 55 | 41 | 40 | 40 | 60 | 10 |
| Military assistance program offshore procurement..... | 148 | 147 | 143 | 131 | 89 | 57 | 40 | 30 | 16 | 7 |
| Military assistance program services..... | 49 | 37 | 58 | 64 | 57 | 55 | 50 | 46 | 37 | 23 |
| Atomic Energy Commission defense expenditures..... | 305 | 301 | 262 | 189 | 113 | 40 | 36 | 3 | | |
| Coast Guard expenditures..... | 154 | 3 | 4 | 8 | 7 | 9 | 10 | 9 | 9 | 6 |

Not shown separately.

1. For quarterly data see line 16, table 1, of the quarterly U.S. balance of payments presentations in the SURVEY OF CURRENT BUSINESS.

2. This series differs from the series maintained by the Department of Defense which includes expenditures for relief pay, claims, grants of cash to foreign countries, and net changes in Department of Defense holdings of foreign currencies purchased with dollars. These transactions are included in other entries in the quarterly balance of payments presentation in the SURVEY OF CURRENT BUSINESS.

3. Data by category differ from the series maintained by the Department of Defense in certain instances, e.g. (1) Department of Defense includes permanent change of station and per diem allowances in the category "Expenditures by U.S. personnel" beginning with the last half of 1967, whereas they are included here in the category "Other services and unallocated"; and (2) Department of Defense data do not include expenditures for equipment from operation and maintenance appropriations in the category "Equipment" beginning with 1963, whereas they are included here as "Equipment" through 1967, and "materials and supplies" thereafter.

Source: U.S. Department of Commerce, Office of Business Economics, from information made available by operating agencies.

which NATO provides combat support facilities, including airfields, naval facilities, missile sites, pipelines, and land-based communication and radar warning systems. As a result of the relocation of the NATO headquarters and forces from France in the spring of 1967, it has also been necessary to construct new headquarters in Belgium and the Netherlands, to relocate the communications network, and to provide other new facilities.

The U.S. share of infrastructure costs, under the current formula, is 25.8 percent on projects in which France participates and 29.7 percent when France does not participate. U.S. contractors are now eligible to bid on construction projects on equal terms with European contractors. The foreign exchange cost of our share of outlays is reduced, in part, by procurement from U.S. sources by U.S. contractors and, in some instances, by foreign contractors as well.

From the inception of U.S. participation in the program in 1951 to the end of June 1969, our total contribution to NATO infrastructure came to nearly \$1.2 billion. The net impact of this program on the U.S. balance of payments cannot be measured, since procurement from U.S. sources is recorded as commercial exports and cannot be separately identified. However, activities under the program during the last several years probably have not contributed significantly to the U.S. deficit because, in some instances, special arrangements have been established to insure that U.S. contributions are offset by orders to U.S. suppliers.

Concentration of defense spending

Even though U.S. military establishments are widely distributed throughout the world, our defense outlays are concentrated in a relatively small number of countries. In the

recent past, 10 countries have accounted for about 80 percent of the total. Nearly one-fifth of the 1968 total was spent in Germany alone, where outlays reached nearly \$900 million. Over one-fourth was spent in Japan and Vietnam together, where disbursements were close to \$600 million in each country. Thailand, Korea, the Ryukyu Islands, the Philippines, and Taiwan, the other major support areas for the Vietnam conflict, together received almost \$1.1 billion, another fourth of the total. However, data for Vietnam and Thailand are somewhat overstated since petroleum expenditures are normally charged to the location where title is transferred to the military agencies rather than to the location of the refinery. Canada with nearly \$300 million and the United Kingdom with nearly \$200 million were the other two major recipients.

Although it is difficult to establish a clear-cut distinction between outlays for hostilities in Southeast Asia and expenditures for other purposes, it is estimated that in 1968 about \$1.7 billion, or more than a third of our gross expenditures were attributable to the Vietnam conflict. The greatest increase in military expenditures in the last several years has, of course, been in Vietnam and the support areas. However, the conflict there has clearly increased expenditures in other areas of the world, such as in certain of the oil-producing countries.

Outlays in Western Europe

Defense expenditures in Western Europe have averaged \$1.5 billion a year since 1960 and have not deviated by much more than \$100 million a year. The rather substantial reduction since 1960 in the number of U.S. troops deployed in Europe has been largely offset by price and wage increases. The rapid decline in military expenditures in France, following the relocation of U.S. and other NATO forces from France in 1967, was accompanied by increased expenditures in Germany, Belgium, and elsewhere in Europe.

The Czechoslovakian crisis in August 1968, which led to an increase in troop deployment in Germany, also was par-

Table 2.—Defense Expenditures Abroad for Goods and Services, by Major Country

(Millions of dollars)

| | 1958 | 1961 | 1962 | 1963 | 1964 | 1965 | 1966 | 1967 | 1968 | 1969 Jan.- June |
|---|-------|-------|-------|-------|-------|-------|-------|-------|-------|-----------------------|
| Total..... | 3,487 | 2,968 | 3,106 | 2,961 | 2,890 | 2,832 | 2,764 | 4,375 | 4,539 | 2,412 |
| Western Europe..... | 1,632 | 1,331 | 1,633 | 1,423 | 1,492 | 1,484 | 1,585 | 1,610 | 1,632 | 797 |
| Belgium/Luxembourg..... | 28 | 12 | 29 | 13 | 11 | 12 | 14 | 35 | 37 | 21 |
| Denmark/Greenland..... | 61 | 37 | 34 | 42 | 35 | 40 | 87 | 36 | 34 | 15 |
| France..... | 274 | 288 | 268 | 248 | 215 | 208 | 208 | 97 | 25 | 10 |
| Germany..... | 649 | 636 | 743 | 681 | 664 | 714 | 770 | 837 | 877 | 454 |
| Greece..... | 10 | 18 | 28 | 27 | 28 | 31 | 24 | 30 | 28 | 13 |
| Iceland..... | 14 | 14 | 12 | 10 | 11 | 12 | 17 | 24 | 18 | 7 |
| Italy..... | 126 | 97 | 114 | 98 | 102 | 102 | 106 | 102 | 103 | 64 |
| Netherlands..... | 27 | 28 | 34 | 31 | 40 | 41 | 43 | 49 | 41 | 15 |
| Norway..... | 17 | 14 | 15 | 14 | 24 | 24 | 28 | 36 | 33 | 7 |
| Spain..... | 64 | 64 | 62 | 49 | 42 | 45 | 40 | 48 | 43 | 21 |
| Switzerland..... | 5 | 6 | 4 | 3 | 10 | 11 | 10 | 12 | 10 | 6 |
| Turkey..... | 57 | 54 | 54 | 50 | 55 | 42 | 40 | 45 | 53 | 22 |
| United Kingdom..... | 287 | 225 | 197 | 184 | 173 | 154 | 146 | 230 | 172 | 106 |
| Other and unallocated..... | 20 | 20 | 22 | 20 | 38 | 31 | 45 | 54 | 68 | 28 |
| Canada..... | 287 | 267 | 326 | 295 | 218 | 171 | 204 | 232 | 285 | 143 |
| Latin American Republics..... | 59 | 57 | 76 | 70 | 86 | 99 | 91 | 102 | 105 | 55 |
| Other Western Hemisphere..... | 20 | 103 | 87 | 62 | 64 | 39 | 68 | 51 | 63 | 28 |
| Bermuda..... | 13 | 14 | 14 | 14 | 10 | 8 | 9 | 11 | 8 | 4 |
| Netherlands Antilles..... | 60 | 68 | 63 | 61 | 54 | 29 | 21 | 43 | 44 | 26 |
| Trinidad and Tobago..... | 12 | 20 | 17 | 21 | 24 | 33 | 30 | 10 | 22 | 10 |
| Other and unallocated..... | 5 | 3 | 8 | 6 | 8 | 7 | 9 | 8 | 9 | 4 |
| Australia, New Zealand, and South Africa..... | 75 | 68 | 103 | 105 | 103 | 57 | 50 | 39 | 23 | 21 |
| Other Countries..... | 826 | 855 | 880 | 866 | 847 | 1,061 | 1,000 | 2,318 | 2,481 | 1,346 |
| Bahrain..... | 36 | 43 | 26 | 25 | 31 | 36 | 28 | 55 | 61 | 32 |
| Japan..... | 412 | 302 | 342 | 368 | 231 | 348 | 484 | 538 | 681 | 320 |
| Korea..... | 94 | 112 | 103 | 96 | 61 | 67 | 160 | 237 | 301 | 179 |
| Morocco..... | 26 | 21 | 18 | 18 | 7 | 4 | 6 | 6 | 6 | 3 |
| Philippines..... | 67 | 49 | 51 | 43 | 58 | 61 | 147 | 167 | 160 | 90 |
| Ryukyu Islands..... | 78 | 68 | 66 | 67 | 115 | 122 | 159 | 189 | 202 | 104 |
| Saudi Arabia..... | 42 | 45 | 44 | 43 | 37 | 38 | 61 | 63 | 91 | 45 |
| Taiwan..... | 25 | 22 | 22 | 20 | 21 | 21 | 60 | 70 | 78 | 43 |
| Thailand..... | 5 | 6 | 30 | 27 | 34 | 70 | 123 | 288 | 318 | 139 |
| Vietnam..... | 17 | 12 | 37 | 22 | 64 | 188 | 408 | 664 | 626 | 303 |
| Other and unallocated..... | 63 | 57 | 88 | 79 | 69 | 79 | 120 | 153 | 120 | 60 |

1. Includes Cambodia and Laos.
See table 1 for other notes. Source: U.S. Department of Commerce, Office of Business Economics from information made available by operating agencies.

tially responsible for increased expenditures in that country. In the past decade, Germany has earned more than any other country from U.S. military expenditures. In the first half of 1969, the annual rate of our military expenditures there reached almost \$910 million, comprising nearly 60 percent of the Western European total.

U.S. defense expenditures in Germany probably did not contribute substantially to our balance of payments deficit from 1962 through 1967 because of our military offset agreements with that country. Under these arrangements Germany agreed to purchase military goods and services from the U.S. Government and from private U.S. suppliers at levels approximating our defense expenditures there. Final payment under these agreements was made in June 1967. Since then Germany has continued to purchase military equipment in the United States, but at greatly reduced levels. While Germany has also invested in medium-term non-convertible and non-negotiable U.S. Treasury securities, these securities will reach maturity in a few years and are a claim upon our real resources.

U.S. military expenditures in France before 1967 exceeded French purchases of military supplies and equipment from us. The peak in our defense outlays there was reached in 1955 at almost \$600 million; our spending declined thereafter to somewhat over \$200 million in 1966, the last full year before our military forces were removed. Expenditures in France are now running at an annual rate of less than \$20 million.

Expenditures in the United Kingdom declined steadily from nearly \$290 million in 1960 to less than \$150 million in 1966. In the following year, the United States made an advance payment of \$35 million to the United Kingdom for military equipment and the total for 1967 rose to \$210 million. Expenditures have since averaged close to \$200 million a year. Apart from purchases by military exchanges and direct personal expenditures by servicemen and their dependents, most outlays in the last 2 years have been for troop support and the operation and maintenance of our bases.

Expenditures in the Western Hemisphere

U.S. defense outlays in Canada reached a peak in 1953 of over \$440 million, which included about \$280 million spent by the Atomic Energy Commission for the procurement of uranium. Thereafter, uranium purchases declined and our overall expenditures trended downward until 1966. Beginning in 1966 they increased steadily to reach an annual rate of \$310 million in the first half of 1969.

These outlays have been partially offset by Canadian purchases in the United States under the U.S.-Canadian defense production-sharing program. Under this program the value of contracts placed directly by the Department of Defense in Canada, as well as subcontracts placed there by U.S. contractors, is measured against the value of similar Canadian contracts placed in the United States. Thus the program was designed to provide that, in the long run, military exports to Canada would balance military imports from Canada for certain military procurement, repair, overhaul, and modification of military equipment. Basic raw materials, fuels and lubricants, construction, off-the-shelf general procurement, and certain services do not come under the provisions of this program.

Outlays for goods and services in the American Republics, although widely dispersed among countries, now consist primarily of expenditures in Panama related to Canal Zone operations and purchases of petroleum products in Venezuela. During 1965 and 1966 these transactions were augmented by relatively small expenditures in the Dominican Republic. Since 1966 expenditures have been in excess of \$100 million annually.

Reported expenditures in other countries of the Western Hemisphere, a little more than \$80 million in 1968, have been less in the last 5-year period than in the several years preceding our entry into the Vietnamese conflict. These expenditures are principally for procurement of petroleum products from the Netherlands Antilles and Trinidad. It should be noted, however, that data for these areas are somewhat understated since petroleum expenditures are normally charged to the location where title is transferred to the military agencies, e.g., Thailand and Vietnam, rather than to the location of the refinery.

Uranium purchases in South Africa

The data shown in table 2 for Australia, New Zealand, and the Union of South Africa cover primarily expendi-

Table 3.—U.S. Government Receipts Under Military Sales Programs, Commercial Sales Under Government-to-Government Agreements, and Barter Sales Arranged to Finance Purchases of the Department of Defense and the Atomic Energy Commission

(Millions of dollars)

| | 1960 | 1961 | 1962 | 1963 | 1964 | 1965 | 1966 | 1967 | 1968 | Jan.-June 1969 |
|--|------|------|-------|-------|-------|-------|-------|-------|-------|----------------|
| Total 1..... | 321 | 548 | 1,392 | 1,343 | 1,224 | 1,125 | 1,228 | 1,423 | 1,383 | 378 |
| U.S. Government cash receipts associated with military sales contracts 2,3..... | 319 | 399 | 1,130 | 904 | 987 | 1,050 | 927 | 1,023 | 974 | 364 |
| Barter sales of agricultural products arranged to finance purchases of: Department of Defense 4..... | n.a. | n.a. | n.a. | 8 | 35 | 100 | 141 | 226 | 200 | 00 |
| Atomic Energy Commission 5..... | n.a. | n.a. | n.a. | n.a. | n.a. | | 25 | 2 | | |
| Commercial sales under government-to-government agreements 1,2..... | 4 | 160 | 253 | 243 | 204 | 157 | 154 | 170 | 209 | 124 |

n.a. = Not available.

1. Does not include certain Department of Defense and Export-Import Bank collections on credits financing commercial sales of military equipment and does not include interest collections on credits financing Department of Defense sales which are included in the series on U.S. defense receipts maintained by the Department of Defense. These transactions are included in other entries in the quarterly balance of payments presentations in the Survey of Current Business.

2. For quarterly data see line B, 2, table 5, of the U.S. balance of payments presentations in the Survey of Current Business.

3. U.S. Government cash receipts include principal repayments on credits financing military sales contracts and are net of refunds.

4. Included as part of the data shown in line 3, table 1, of the quarterly U.S. balance of payments presentations in the Survey of Current Business.

5. Includes available data for commercial sales of military equipment under government-to-government agreements.

Source: U.S. Department of Commerce, Office of Business Economics, from information made available by operating agencies.

tures of the Atomic Energy Commission in the Union of South Africa and, beginning in the fourth quarter of 1967, the personal expenditures of troops from Vietnam on rest and recuperation in Australia. Purchases of uranium from South Africa were concluded in first quarter of 1967 and the expenditures for this commodity in 1966 and 1967 were offset by barter sales of agricultural products.

Southeast Asia and rest of the world

In the rest of the world, expenditures amounted to \$300 to \$900 million annually in the 5-year period before hostilities intensified in Vietnam. In 1965, the first year of stepped-up activity, they increased to almost 1.1 billion and in the following year rose to \$1.8 billion. The increase in 1967 was less steep but still amounted to over \$500 million, for a total of over \$2.3 billion. Thereafter, expenditures climbed at a slower pace, and by the first half of 1969 they reached an annual rate of \$2.7 billion.

U.S. military outlays in Japan have been second only to those in Germany since 1959, but in the prior decade Japan earned considerably more than Germany. Annual Japanese earnings reached a peak of about \$750 million in calendar years 1952 and 1953, but then began to fall after the Korean armistice and continued to decline through 1964 when they amounted to only two-fifths of their largest annual total. Japanese earnings turned upward in 1965 with the increased U.S. activity in Vietnam and by the first half of 1969 were running at an annual rate of \$640 million.

Almost half of the 1968 outlays in Japan consisted of expenditures by U.S. personnel or purchases by the military exchanges for resale to troops in Japan, Vietnam, Korea, and other areas. Military exchange purchases amounted to \$135 million in 1968, almost triple the 1965 figure. Direct personnel expenditures in Japan have also increased, primarily because of outlays by men based in Vietnam who are in Japan on fur-

lough or on rest and recuperation. Also, most of the men in the Pacific Fleet sooner or later have an opportunity to make a port call in Japan, a favorite liberty port among camera and stereo enthusiasts, and spend heavily on these and other items.

As in many other countries in this area, expenditures in Korea varied little during the years 1960-65, but almost doubled in 1966 when procurement of goods and services for use in the war effort began to make its impact. In 1967 Korea earned nearly \$240 million, almost twice the annual average earlier in the decade and about three times the highest annual amount earned during the Korean War. In 1968, following the Pueblo incident, our military position in Korea was strengthened and expenditures rose to over \$300 million. By the first half of 1969 the annual rate had climbed to nearly \$360 million.

The United States has built up in Thailand a network of air bases, deep-water ports, supporting highways, supply installations, and communication systems. Construction in Thailand was carried out by several U.S. civilian construction companies and Army engineers, using American equipment to a considerable extent. Many Thai laborers were employed, however, and construction materials were procured in Thailand and other support countries. Most American military supplies have been moved from seaport to airfield via Thailand's domestic transport network.

Gross expenditures in Thailand reached a peak of almost \$320 million in 1968 and then began to decline with the completion of the major construction programs. The withdrawal of 6,000 Air Force and Army support and construction personnel in this fiscal year may reduce them even further. Operating and maintenance expenses, combined with the personal outlays of U.S. troops stationed in Thailand and of troops there on rest and recreation from the combat zone, represent most current defense expenditures providing dollar earnings to that country.

U.S. military expenditures in Viet-

nam were comparatively minor prior to the last half of 1965. About mid-1965, however, with the progressive increase in personnel and activity, expenditures began to rise rapidly and by 1968 amounted to over a half billion dollars, as compared with about \$65 million in 1964. When the United States entered combat activities, it was hampered by a scarcity of logistical facilities. The two major ports at Da Nang and Saigon were grossly inadequate to meet new demands and the delivery of support equipment by sea necessitated the construction of deep-draft ports. Large construction projects were also begun on airfields and storage facilities.

The increased requirements for labor, both skilled and unskilled, brought about by these vast projects led to labor shortages and resulted in an agreement between the U.S. Government and the Government of Vietnam for employment by U.S. contractors of third-country nationals, with first priority going to troop-contributing countries and then to countries rendering economic assistance to Vietnam. Of the amounts paid out as wages to such third-country nationals, only the workers' piastre expenditures are included in the data shown for Vietnam. The balance is allocated principally to Korea, the Philippines, and Thailand where most of these wages are remitted.

Late in 1965 military payment certificates (MPC's) were introduced as a means of paying the U.S. forces in Vietnam. These MPC's are denominated in dollars and used instead of U.S. currency or dollar negotiable instruments as the official medium of exchange for transactions in military exchanges and other establishments of the Armed Forces. Military disbursing officers and banking facilities are authorized to exchange MPC's for piastres to be spent in the local economy but will not generally exchange MPC's for U.S. dollar negotiable instruments unless personnel are leaving the country. Personnel are prohibited from using either U.S. currency or MPC's for purchases of Vietnamese goods and services and are required to purchase all piastres from official sources.

While the recent withdrawal of 60,000 troops from Vietnam will reduce personnel expenditures in Vietnam, the total overseas disbursements will not fall by a proportionate amount because some of these troops are moving to other foreign areas. Nevertheless, with the completion of major construction programs and the decline in troop levels in Southeast Asia as a whole, military expenditures in the area may decline in 1970.

U.S. allies buy American products

Increased U.S. military sales in countries economically able to procure a portion of their defense requirements in the United States have helped to offset the deficit impact of U.S. military disbursements. These sales have also fostered cooperative logistics with our allies and have enabled them to obtain weapons systems from the United States for much less than it would have cost them—counting research, development and production—to manufacture comparable systems.

Many American products have been transferred under military sales contracts, including aircraft such as fighter-bombers, transport and training planes, multipurpose jets, and helicopters; destroyers and patrol boats; ammunition and missile systems; electronic and communication equipment; tanks, vehicles, and various parts and spares. As a result of these transfers U.S. Government cash receipts associated with military sales contracts and other programs have ranged from \$0.9 billion to \$1.1 billion a year during the last several years, as shown in table 3. In the first half of 1969 they were at an annual rate of \$1.1 billion—nearly five times the amount in 1960. (Quarterly data are shown in line B.3,

table 5, of the U.S. balance of payments presentations.)

Receipts from Germany accounted for nearly half of the aggregate \$7.1 billion of such receipts during calendar years 1962 through 1968. Of the global total, about \$6.5 billion represented cash received under foreign assistance legislation authorizing reimbursable military exports. The remainder, averaging nearly \$80 million a year, represented primarily the dollars and foreign currencies acquired either through the sale of property excess to the needs of military installations abroad, or through sales of materials and services provided under various logistical support programs to the United Nations Emergency Forces and to the allied countries contributing military strength in Korea and Vietnam. Also included are sales both here and abroad of petroleum products and other goods and services furnished to foreign naval vessels and aircraft. Receipts of foreign currencies contributed to the United States by foreign countries under military assistance programs, which are used principally for the support of our military missions abroad, are also included as part of these various receipts.

Although \$7.1 billion of cash was received by the Government in the last 7 years, approximately \$6.4 billion of goods and services were actually transferred to foreign countries during the period. These transfers under the military sales program included exports from the United States, transfers from stocks overseas, sales over-the-counter abroad, and training and other services provided either here or abroad. Transfers of goods and services to Germany represented 35 percent of the total, to the United Kingdom 13 percent, and to the other countries of Western Europe 21 percent. Exports to Canada and the American Republics were 7 percent of the total, to Australia and New Zealand

9 percent, and the remaining 15 percent went to Japan and the rest of the world. Line 4, table 1, of the quarterly U.S. balance of payments presentations provides quarterly data for these military exports.

Barter sales of agricultural products arranged to finance purchases by the military agencies and the Atomic Energy Commission began in 1963 and by the end of June 1969 the cumulative value of payments to the Department of Agriculture by these agencies for shipments to foreign countries was almost \$840 million. Under this program agricultural commodities are provided to a barter contractor as an intermediary in obtaining foreign goods and services to meet a portion of the overseas requirements of both military and non-military agencies. The objectives of the barter program are achieved only to the extent that the exports under it are additional to agricultural sales that otherwise would be made abroad for payment in dollars. The Department of Agriculture has a screening procedure to maximize the probability of additionality in each approved barter transaction.

Table 3 also shows the available data for commercial sales of military items to NATO and to Germany, Italy, Japan, Iran, and Saudi Arabia under government-to-government agreements. These receipts for equipment procured directly by foreign countries from private U.S. sources have averaged about \$200 million a year since 1961.

In recent years special U.S. Treasury medium-term securities have, on occasion, been sold to foreign governments when our military expenditures in their countries are significantly larger than their military purchases from us. These financial measures, which do not represent a long-term solution to the military deficit, are not included in table 3.